



Hong Kong Tax Newsflash

Updates on enhancement proposals for the preferential tax regimes for the asset and wealth management industry

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The Hong Kong government recently released an [administrative paper](#) which sets out the enhancement proposals for the preferential tax regimes for funds¹, family-owned investment holding vehicles (FIHVs) managed by single family offices², and carried interest³. It was first announced in the 2024-25 Budget that the government will enhance the preferential tax regimes for the asset and wealth management industry to attract more funds and family offices to establish a presence in Hong Kong. Following the consultation exercise and engagement sessions conducted in late-2024 to mid-2025, the government announced the enhancement proposals to the relevant tax regimes. The draft legislation is expected to be introduced in the first half of 2026. The relevant measures will take effect from the year of assessment 2025/26.

The key enhancement measures are set out below. New measures introduced or modified after the consultation exercise are marked with * and will significantly enhance the attractiveness of these preferential tax regimes to the asset and wealth management industry.

Unified fund exemption (UFE)

Expanding the definition of fund

- Expanding the scope of funds under the UFE regime to cover:
 - pension funds
 - endowment funds, including charitable entities that are exempt from tax under Section 88 of the Inland Revenue Ordinance
 - a fund with a governmental entity or a central bank or an international organisation as its sole investor *
 - an arrangement with only one investor and with the value of qualifying investments (i.e. Schedule 16C assets) under management of at least HKD 240 million, provided that the investor does not have day-to-day control over the management of the property *

¹ The current regime provides profits tax exemptions on profits earned by funds or special purpose entities (SPEs) owned by a tax-exempt fund from qualifying transactions and incidental transactions (subject to 5% threshold), subject to certain conditions.

² The current regime provides profits tax exemptions on profits of FIHVs and family-owned SPEs managed by single family offices arising from qualifying transactions and incidental transactions (subject to 5% threshold), subject to certain conditions.

³ The current regime provides profits tax and salaries tax exemptions on eligible carried interests, subject to certain conditions.

All the above newly scoped-in funds, as well as sovereign wealth funds (excepted funds) do not need to be managed by a specified person⁴ *.

- Explicitly stating that transacting in or deriving profits from Schedule 16C assets (and non-Schedule 16C assets for open-ended fund company) will not by itself render an entity to be regarded as a business undertaking for general commercial or industrial purposes⁵

Broadening the coverage of qualifying investments

- Broadening the scope of qualifying investments to cover:
 - Immovable property situated outside Hong Kong
 - Emission derivatives/Emission allowance and carbon credits
 - Insurance-linked securities
 - Equity interests in non-corporate private entities⁶
 - Loans and private credit investments
 - Digital assets (excluding a cryptographically secured digital representation which provides an interest in non-Schedule 16C assets)
 - Precious metals *
 - Specified commodities (i.e. those in connection with and incidental to the trading of over-the-counter derivative products or futures contracts) with a 15% trade volume cap⁷ *
- Modifying the coverage of “private company” to cover companies of which shares or debentures are **not traded** on any stock exchange **at the time when** an income eligible for the profits tax exemption is derived by the fund or special purpose entity (SPE)

Relaxing profits eligible for profits tax exemptions

- Removing the 5% threshold for incidental transactions, i.e. all profits derived from qualifying investments would be eligible for the tax exemption
- Introducing an exclusion list for tax exemption, e.g. income derived from private companies that engage in trading or development of immovable properties in Hong Kong⁸

Expanding the definition of SPEs

- Expanding the scope of SPEs’ activities⁹ to cover the acquisition, holding, administering and disposal of investee private companies and/or another SPE and activities incidental to the above activities

⁴ A corporation licensed under Part V of the Securities and Futures Ordinance to carry on, or an authorized financial institution registered under that Part for carrying on, a business in any regulated activity as defined by Part 1 of Schedule 5 to that Ordinance.

⁵ A business undertaking for general commercial or industrial purposes is not a fund and ineligible for tax exemption. Under the current rule, a business undertaking for general commercial or industrial purposes includes a business undertaking that directly engages in various activities such as purchase and sale of assets and money lending.

⁶ E.g. business trusts, private trusts, partnerships, limited liability companies, Tokumei Kumiai and Tokutei Mokuteki Kaisha.

⁷ The trade volume must not exceed 15% of the total trade volume of those commodities and related commodity derivatives traded by the fund or SPE in that basis period.

⁸ Income derived from an investment in an entity that engages in a regular business other than property trading but has carried out a one-off property trading transaction which is an adventure in the nature of trade may still qualify for the tax exemption.

⁹ Limited to holding and administering Schedule 16C assets or investee private companies under the current regime.

- Granting full tax exemption to a fund's SPE regardless of the extent of the fund's ownership¹⁰ *, subject to anti-round tripping rules (see below)

Adjusting the tests applicable to transactions in private companies

- Adjusting the scope of the immovable property test (i.e. whether the relevant company holds immovable property in Hong Kong), holding period test (i.e. period of holding the relevant company), control test (i.e. whether the fund controls the relevant company) and short-term asset test (i.e. the level of short-term assets held by the relevant company) to **equity** investment/interest in private companies and non-corporate private entities¹¹ *

Relaxing anti-round tripping rule¹²

- Excluding the following persons from the application of the anti-round tripping provisions:
 - A resident person who is a natural person
 - A tax-exempt resident fund under the UFE regime (exempted fund)
 - A resident person who would have been exempted from tax in the same manner as that of the fund (exempted person), e.g. life insurance corporations
 - A resident entity which:
 - is not a business undertaking for general commercial or industrial purpose;
 - does not carry on any trade or business in Hong Kong;
 - a certain percentage of beneficial interest of which was owned by resident individuals, exempted funds, exempted persons or non-residents; and
 - are interposed between the resident individuals, exempted funds, exempted persons or non-residents and the fund.
- Introducing specific anti-round tripping provisions against financial institutions, insurance companies, and persons carrying on a money lending business or an intragroup financing business*. If the relevant person:
 - has beneficial interest of 20%* or more in a fund (or any percentage if the fund is the person's associate); or
 - has control or significant influence over a fund *,
 the relevant person will be deemed to have derived assessable profits in respect of profits derived by the fund from loans.

Implementing tax reporting mechanism

- Implementing a tax reporting mechanism for funds and SPEs benefiting from the UFE regime to report certain accounting data and information showing that the tax exemption conditions and substantial activities requirements are satisfied

Introducing substantial activities requirement thresholds

- Average number of qualified employees is adequate and not less than 2; and
- Annual operating expenditure incurred in Hong Kong is adequate and not less than HKD 2 million.

¹⁰ Currently, the extent of tax exemption for a fund's SPE is equal to the percentage of the fund's ownership in the SPE.

¹¹ The current rule of investments in private companies include both equity and debt investments.

¹² Under the current UFE regime, a resident person who, either alone or jointly with his associates, has a beneficial interest of 30% or more in a tax-exempt fund (or any percentage if the fund is the resident person's associate) will be deemed to have derived assessable profits in respect of the profits earned by the fund from the qualifying transactions and incidental transactions that exempted from tax under the UFE regime.

FIHVs managed by single family offices

The following corresponding enhancement measures for funds also apply to FIHVs:

- Broadening the coverage of qualifying investments
- Relaxing profits eligible for profits tax exemptions
- Expanding the definition of SPEs
- Adjusting the tests applicable to transactions in private companies
- Introducing specific anti-round tripping provisions against financial institutions, insurance companies, persons carrying on a money lending business or an intragroup financing business

Carried interest

- Removing the requirement for a fund to obtain Hong Kong Monetary Authority's certification before becoming a qualifying payer¹³
- Expanding the definition of "qualifying person"¹⁴ to cover unlicensed fund managers of excepted funds under the UFE regime *
- Broadening the coverage of "associate" under the definitions of "qualifying payers" / "qualifying employees"¹⁵ to cover entities within the same group of the fund / investment managers (regardless of their legal forms¹⁶)
- Removing the requirement to distribute carried interest through the qualifying person and specifying that carried interest received by a personal investment company on behalf of qualifying employees is eligible for tax exemption
- Removing the reference to a hurdle rate under the definition of eligible carried interest¹⁷
- Expanding the coverage of the sources of profits of a fund which may give rise to eligible carried interest¹⁸, including:
 - A fund's tax-exempt profits under the UFE regime
 - A fund's other non-taxable income, e.g. offshore income
 - A fund's other taxable income, e.g. income specified in the proposed exclusion list

¹³ Carried interest eligible for profits tax concession should be received from a "qualifying payer", which includes fund and the associated corporation/associated partnership of the fund.

¹⁴ A "qualifying person" can receive and accrue eligible carried interest from a "qualifying payer".

¹⁵ "Qualifying employees" are employed by a "qualifying person" (or its associated entity in Hong Kong) and provide investment management services in Hong Kong for the qualifying person.

¹⁶ Limited to corporation and partnership under the current regime.

¹⁷ Currently, eligible carried interest is defined as a sum received by, or accrued to, a person by way of profit-related return from the provision of investment management services by the person for a fund. Generally, the sum is to be received or accrued after the payment of a return on investments in the fund subject to the fulfilment of the hurdle rate stipulated in the agreement governing the operation of the fund.

¹⁸ Under the current regime, eligible carried interest must arise from transactions in the Schedule 16C assets of a private company, an SPE or an interposed SPE, an investee private company or transactions incidental to the carrying out of the transactions above.

Legislative timeline

The government plans to introduce the amendment bill into the Legislative Council in the first half of 2026. Subject to the enactment of the legislation, the relevant measures will take effect from the year of assessment 2025/26.

Our observation

The latest administrative paper on enhancing the preferential tax regimes for funds, FIHVs managed by single family offices, and carried interest introduces several important updates. While many changes reflect feedback from the earlier consultation, the paper also includes key additions absent in the original proposals, along with certain omissions that may require clarification.

A key highlight is the expanded scope of funds eligible under the UFE regime to include “funds-of-one” arrangements (i.e. funds having a single investor) with substantial qualifying investments. This change is particularly welcome, as such arrangements are commonly used by institutional or ultra-high-net-worth investors. The removal of the requirement for management by a licensed fund manager for certain excepted funds significantly simplifies the setup, enabling these funds to qualify for tax concessions without complex management structures. This enhancement improves accessibility and strengthens Hong Kong’s competitiveness as a wealth management hub.

Another positive development is the broadening of qualifying investments to include precious metals and specified commodities, which provides greater flexibility for fund managers and single family offices. It also supports the growth of precious metals and commodities trading in Hong Kong, reinforcing the city’s role as a premier international financial centre and a key hub for global commodities markets.

As noted in the government paper, the inclusion of fund-of-one structures, together with the expansion of qualifying investments to include loans and private credit is supportive of the government’s aim to be the largest private credit hub in the region.

The government has also removed the 95% ownership threshold for SPEs, as proposed in the earlier consultation. This resolves a major hurdle for co-investment arrangements where partners hold more than 5%, allowing such structures to maintain tax neutrality, provided the anti-round tripping rules are satisfied.

We welcome the retention of the control and short-term asset tests for private company investments. Their inclusion ensures the regime remains balanced and practical, preserving tax exemption where the fund or FIHV does not control the investee company or where the company holds few short-term assets, even if the holding period is short. On the other hand, carving out debt investments from the four tests is a practical and welcome measure.

The anti-round tripping rules applicable to financial institutions, insurance companies, and persons carrying on a money lending business or an intragroup financing business have been updated, with the ownership threshold raised from 10% to 20%. While the higher threshold reduces the compliance burden for minority investors, the new “control or significant influence” test may capture a broader range of arrangements, which may require further clarification.

The changes to the carried interest concession regime are particularly welcome, as they would encourage more fund managers to perform investment management activities in Hong Kong by making it easier to benefit from the revamped regime.

However, two important aspects from the consultation paper are absent in the current proposal. First, there is no mention of adjusting the definition of “infrastructure” that is carved out from the immovable property test for private company investments. Without this adjustment, some new infrastructure (e.g. data infrastructure and logistic centres) may be treated as immovable property, potentially disqualifying funds from tax benefits.

Second, while the consultation paper permitted outsourcing under the substantial activities requirement, this is not addressed in the current proposal. In the absence of clear confirmation that outsourced activities can count toward meeting the substantial activities requirement, uncertainty and potential compliance challenges may arise.

Overall, the enhancements demonstrate Hong Kong’s commitment to becoming a leading hub for asset and wealth management. The new rules are more inclusive, flexible, and aligned with market practices. To ensure the regime is attractive and workable in practice, the government should clarify key uncertainties, e.g. the application of the new “control or significant influence” test under the anti-round tripping rules, the permissibility of outsourcing under the substantial activities requirement, etc.

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